

G-008/M-92-229 ORDER REJECTING PETITION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Request by
Minnegasco to Establish a
Weather Normalization Adjustment
That Would Automatically
Increase or Decrease Rates When
Weather is Warmer or Colder Than
Normal

ISSUE DATE: July 15, 1992

DOCKET NO. G-008/M-92-229

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PROCEDURAL HISTORY

On March 24, 1992, Minnegasco (or the Company) filed a Notice of Miscellaneous Rate Change with the Commission. In this filing Minnegasco proposed a Weather Normalization Adjustment (WNA) which would adjust heat sensitive customers' bills for the effects of weather during the heating season. Minnegasco supplemented its filing on March 26 and June 12, 1992.

On April 24, 1992, the Department of Public Service (the Department) filed comments regarding the Company's proposal. The Department recommended that the Commission reject Minnegasco's filing.

Minnegasco filed comments in reply to the Department on May 4, 1992.

On May 6, 1992, the Residential Utilities Division of the Office of Attorney General (RUD-OAG) filed comments in support of the Department's position.

The Department filed reply comments on May 21, 1992.

On June 30, 1992, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. The WNA Mechanism

In a general rate case, a gas utility's rates are set to reflect both the cost of gas and a margin. The margin allows the utility a profit and a recovery of fixed costs. Because the margin

portion of rates which provides a profit remains fixed between rate cases, the utility's earnings will fluctuate between rate cases, depending in part on the amount of gas actually sold.

Minnegasco's proposal is designed to stabilize Company margins by mitigating the impact of weather swings and consequent fluctuations in gas sales. The WNA would adjust the base margin rate portion of customers' bills to reflect normal weather. A downward adjustment to margin would appear on customers' bills if the weather were colder than normal during the billing cycle. An upward adjustment would be reflected on customers' bills if the weather were warmer than normal during the billing cycle.

Minnegasco proposed the WNA as a three year pilot project commencing October, 1992.

II. Positions of the Parties

The Department

In its comments the Department raised three main arguments against Minnegasco's proposal: WNA amounts to piecemeal ratemaking; it sends inappropriate price signals; it shifts risk to ratepayers without a corresponding decrease in the Company's rate of return.

The Department stated that in most cases rates must be changed in a general rate case under Minn. Stat. § 216B.16, which requires the Commission either to resolve all questions regarding the reasonableness of rates or to refer the matter for contested case proceedings. There are two exceptions to this limitation: Minn. Stat. § 216B.16, subd. 7, which allows for monthly energy cost rate adjustments; and Minn. Stat. § 216B.241, subd. 2(b), which under some circumstances allows monthly rate adjustments to reflect taxes, fees and permits paid by the utility. According to the Department, the proposed WNA would not fit into either of these statutory exceptions and thus could not be used to adjust rates monthly because the result would be piecemeal ratemaking.

The Department also argued that Minnegasco's proposed WNA would send improper price signals because its price adjustment would encourage consumers to use more gas in cold weather, when fewer supplies are available. The Department stated that this result goes against a basic tenet of economics, that a commodity will rise in price as it becomes scarcer. WNA's price adjustments would also encourage consumers to use less gas when weather is warm and gas supply is plentiful. According to the Department, these inappropriate price signals are contrary to the principles of economics, are likely to discourage conservation, will result in confusion to consumers, and will lead to an inefficient allocation of resources.

Finally, the Department argued that Minnegasco's proposal would improperly shift risks associated with abnormal weather from the Company to ratepayers. The Department reasoned that if such a

shift occurred, Minnegasco ratepayers should be compensated by a decrease in the Company's rate of return. This is because the rate of return is meant in part to compensate a utility for a certain set amount of risk.

The RUD-OAG

The RUD-OAG generally supported the Department in its comments. The RUD-OAG stated that the proposed rate adjustment process is not allowed under any existing statute or rule. The agency argued further that even if the WNA were allowed under statute or rule, the proposal should only be examined within a general rate case proceeding. Only under this type of procedure could all factors, such as risk and rate of return, be weighed along with the weather normalization issue.

Minnegasco

Minnegasco argued that its WNA proposal was a "win-win" situation for ratepayers and shareholders. The WNA would help stabilize ratepayers' bills in the event of unusually cold or warm weather. It would provide some rate relief when it is colder than normal during the winter heating months, when usage is highest. The WNA would benefit the Company by providing a more stable cash flow throughout the year. The Company stated that WNA was a rate design concept, over which the Commission has broad legislative authority.

Minnegasco explained that it filed its proposal outside of a general rate case because WNA represents an important policy issue and would best be addressed in a separate proceeding. Once the Commission approves the concept of WNA, the details of implementation could be examined within the Company's next general rate case, scheduled to be filed within a week of the meeting.¹

Minnegasco argued that WNA does not result in piecemeal ratemaking. Rather, the proposal is a revenue-stabilizing mechanism. If implemented, WNA would lead to just the revenue result contemplated by the Commission in Minnegasco's last rate case.

The Company disagreed with the Department's statement that WNA would send inappropriate price signals. Minnegasco argued that the proposal would send proper price signals by allowing for the recovery of non-gas costs on the same weather-normalized basis under which the costs were first approved by the Commission.

Minnegasco argued further that WNA would not improperly shift risk from shareholders to ratepayers, but would reduce the risk of weather fluctuations for both ratepayers and the Company.

¹ Minnegasco filed a petition for a rate increase on July 2, 1992, in Docket No. G-008/GR-92-400.

III. Commission Analysis

There are a number of important issues involved in the WNA proposal. Parties have raised the question of whether the proposed adjustments consist of a rate design concept or a monthly rate adjustment. This is an important question because it reflects upon the Commission's authority to approve the monthly changes. The proposal has also raised questions regarding the proper amount and placement of business risk for a regulated monopoly. This issue affects the rate of return set for the utility. There are also economic issues involved in the concept of WNA, such as its effect on conservation practices and the price signals it sends to consumers.

These issues are too important, far-reaching and interconnected to decide outside of a general rate case proceeding. A rate case is the means by which the Commission examines all relevant issues, including the weather factor, in the process of setting just and reasonable rates. Only in a fully-developed general rate case can the issues raised by WNA be examined in the complete context of the utility, including proper rate of return, expense allowances, rate base and rate design. The Commission therefore finds that Minnegasco's proposal for WNA will be rejected at this time.

Minnegasco is free to come forward with its WNA proposal as part of the Company's present rate case. The Commission will fully consider this and any other proposal which could result in facilitating the regulatory process. The merit of any such proposal, however, must be carefully examined in the full context of a general rate case.

ORDER

1. Minnegasco's March 24, 1992 petition for approval of a Weather Normalization Adjustment is rejected.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)